

OPINION *AND* COMMENT

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The First Year of Price Control: An Evaluation

Administration of Price Control in Illinois

Illinois State Fiscal Problems

The 1942 Revenue Act and the Individual

Achievements of American Industry: 1940-1943

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J. F. BELL, Ph.D., *Acting Director*

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This publication of the Bureau of Economic and Business Research is issued upon the assumption that our readers will appreciate interpretative comments on topics of current interest. Because studied opinions on the significance of current trends are often more thought-provoking than tabulations of data would be, the Bureau supplements its research by issuing *Opinion and Comment* as another type of service.

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The First Year of Price Control:
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A YEAR has elapsed since price control was invoked as a part of the war program. The attack of the enemy was sudden and unexpected and caught us virtually unprepared. Likewise, the attempt to control prices came suddenly and found us inexperienced and uncertain. In the face of rapidly rising prices we were obliged to work with utmost speed and without very much time to analyze the impact of a war on the price and production structure. About all that was actually known was that war and rising prices were interdependent. We did not know the extent to which war demands would affect the price structure, for the simple reason that no one could do more than guess at the war demands. Consequently, we did not know our supply potential. Furthermore, no one could foresee with any accuracy the great increase in wages and taxes, the shifts in labor, the shortages in men and materials, and all the multitude of dislocations caused by war.

Yet, in the face of the great uncertainties, one certainty was outstanding, viz., that an attempt must be made to control prices notwithstanding lack of experience and of machinery for control. Hence the President did away with the Price Stabilization Division, and on April

11, 1941, by executive order set up the Office of Price Administration and Civilian Supply in its place. From September, 1939, to that date prices had advanced alarmingly, but the sharpest advance occurred between January and July, 1941. The Office of Price Administration and Civilian Supply limped along without any real legal power to make its orders "stick" until Congress passed (January, 1942) the Emergency Price Control Act which created the Office of Price Administration. By that time, wholesale prices had advanced by more than 12 per cent since April, 1941; food prices, by 20 per cent; and farm prices, by nearly 35 per cent. In other words, the price structure had already been seriously damaged and the inflationary spiral was started.

The centralized control (Office of Price Administration) worked feverishly to impose specific price ceilings on certain commodities. In the month of January alone, 23 specific ceilings were applied. By February 28 (the effective date of the first ceiling under the Emergency Price Control Act of 1942), the Office of Price Administration had issued 105 specific price schedules. By the end of 1942, 295 price schedules had been issued. In addition to specific price ceilings, Temporary Maximum

Price Regulations and Supplemental Orders were issued, and many amendments to original schedules were made.

The most spectacular move in the effort to control prices was the issuance of the General Maximum Price Regulation of April 28, 1942, which froze all prices, exclusive of the prices of farm commodities and finished combat items, at the levels of March. On the same day, rent control orders were issued covering 323 defense-rental areas, in which a total of 86 million people were living. These two measures covered 80 per cent of the items which enter into the cost of living. Both measures were issued by the Price Administrator and were to take effect in May.

Theoretically, the levels attained in March would be the highest levels for all commodities. That month was chosen for numerous reasons but not because it was a "good" month in which to freeze prices, for there is no "good" month; any month would find many goods out of season or out of production. Prices had then advanced sufficiently to serve as a stimulant to encourage production and to increase industrial activity. A vigorous attempt was made to hold the March ceiling prices under a policy order that "retail ceilings may not be punctured." The ceilings held until late in the summer when those on certain canned products were raised because of advances in costs which had taken place since the last canning season of the previous year. This was the ominous first break through the March ceilings.

The Results of Price Control

Statistically, the results of price controls have been excellent. From August, 1940, to May, 1942, the wholesale price index had risen 27.6 per cent, or at an average rate of 1.3 per cent a month. This consistently rapid increase was abruptly halted. In the three months after the effective date of the General Maximum Price Regulation wholesale prices rose only 0.4 per cent. In the same three months the cost-of-living index advanced 1.4 per cent—an average of 0.4 per cent per month—after an advance of 14.6 per cent in the previous year. In the three months from May 15 to August 15, the percentage changes in cost-of-living items were heavily weighted by the fact that food prices advanced sharply, because there was no control over certain food products. The General Maximum Price Regulation brought 60 per cent of foods sold at retail under control, but it was the uncontrolled 40 per cent which did the damage. From May 15 to August 15 prices of these items advanced 3.3 per cent per month, or at the alarming annual rate of 40 per cent. Since many of the food prices were really farm prices and uncontrolled, they were exerting a tremendous pressure on both the controlled and the uncontrolled food prices. They actually caused some of the ceilings to be broken and threatened many others. While food items were going up, rents, clothing, and house furnishings were declining. Fuel, ice, and electricity held practically unchanged.

From the standpoint of statistical record, there can be no question as

to the success of the Office of Price Administration in keeping prices within reasonable control in the first year. If one compares price advances in the first year of this war with those of the same period in the last war, the success of the Office has been outstanding. During the past year, wholesale commodity prices increased by a little more than 7 per cent, bringing the aggregate gain since the War broke out in September, 1939, to 34 per cent as against a gain of 82 per cent for the corresponding period in World War I. The smaller increase in prices during this period can be attributed mainly to the price-control measures per se, rather than to a combination of fiscal and rationing policies in combination with price-control measures.

However, it is unfortunately true that not all of the so-called "inflation" shows in the price indexes. There has been considerable deterioration in products, which amounts to "hidden inflation" and results in much dishonesty. New brand or trade names at high or higher prices, smaller quantities for the same price, discontinuing of low-priced lines or moving them into higher price lines, withdrawals of discounts and concessions, the imposition of "extras" on retail costs, as well as other devices, have caused huge hidden boosts in prices to both manufacturer and retailer, which are passed on to the consumer. Black markets have developed in which goods are sold at prices higher than the ceiling prices. All these practices materially affect the costs to the consumer but they do not appear in the official

indexes of living costs. Therefore, one cannot evaluate the success of the Office of Price Administration in controlling prices solely by the price indexes. The Office of Price Administration has had neither the power nor the authority to force the manufacturer to produce an identical product and sell it at a former price. Frequently the schedules demanded "substantially the same quality and workmanship," but this order was indefinite and unenforceable.

Uncontrolled Inflationary Items

The Administration has never been willing to take adequate steps to control all inflationary factors. From the beginning, farm prices and wages have been exempt. It is well known that these two groups—farm and labor—are powerful politically and carry much weight in Congress. Moreover, it was held by many that farm prices ought to be allowed to rise automatically, for they had not advanced so fast or so far, on a percentage basis, as had wages under dynamic labor leadership. The Administration took the attitude that wages would not advance if prices were not allowed to rise—thus removing the main cause for agitation for higher wages by labor.

Of these two potential inflationary factors, farm prices rank as number one, because of the extent to which the products of agriculture enter into the cost-of-living items. It may be said that price control was not one of the purposes of the section of the Emergency Price Control Act which dealt with farm prices. The clause of the Act which dealt with agricultural commodities

placed special limitations upon the Administrator's powers with respect to agricultural commodities. The power to set or control prices on agricultural products could not be exercised until such agricultural prices had reached the highest of the following prices: (1) 110 per cent of the parity price of such commodity; (2) the market price prevailing for such commodity on October 1, 1941; (3) the market price prevailing for such commodity on December 15, 1941; or (4) the average price for such commodity during the period July 1, 1919, to June 30, 1929. Commodities processed from farm commodities were also to be priced accordingly. In every case directly or indirectly involving a price on a farm commodity the Secretary of Agriculture was required to approve the price and/or to state that in his opinion the ceiling price would not interfere with attaining the highest price by one of the four methods. Had the section (Section 3) of the Act which dealt with farm commodities been made effective immediately after its passage, it would have actually raised prices on about 90 per cent of farm commodities—all of which are cost-of-living items—because the prices were then lower than those provided for in the Act. Specifically, some commodity prices would have been lowered (e.g., meal prices), whereas others (e.g., feed prices) would have been raised as much as 87.8 per cent (hay prices) had the 110 per cent of parity been applied.

Parity prices change with the change in the index of prices paid out by the farmer. Parity is not, as

many people think, a relationship between farm and industrial prices, but a relationship between prices received for products sold by the farmer and prices of goods he buys. Therefore, since wages were not controlled they would rise, affect the production costs of the goods bought by the farmer, and cause the parity relationship to rise. Likewise, any uncontrolled prices which applied to the goods the farmer would buy would affect the parity relationship and cause an upward revision of farm prices. Actually there was no limit to the rise in prices permissible under the 110-per-cent-of-parity clause of the Act.

One of the ways in which this automatically inflationary Act could have been applied without forcing prices upward was to pay subsidies (Section 2 (d) of the Act) to producers of those commodities whose prices were already below 110 per cent of parity. This procedure was frowned upon from the beginning even though, economically speaking, it has many desirable features. Had subsidies been used, many of the ceilings would not have been punctured. However, the fact that Congress is unwilling to use subsidies means that many of the commodity prices will be revised upward. Much criticism of the Office of Price Administration for not keeping prices within control was not warranted. The farm-commodity price clause of the Act was in itself inflationary. One cannot expect an agency to compensate for the shortcomings of the law which creates it.

The second of the two most powerful inflationary factors was un-

controlled wages. The pressure exerted on price ceilings by wages is not so visible as that of farm prices but it is practically as strong. The effect of rising wages on the cost of living shows up in larger payrolls, which permit greater spending, and in an increase in production costs. Wages and farm prices did not increase simultaneously. Although many wage advances came in 1940 and 1941, they became a powerful inflationary force only in the last half of 1942, the main reason being that the wage advances were absorbed by the manufacturer out of profits. In the early period of the wage increases prior to May, 1942, there was also an increase in the productivity of labor, which tended to offset the wage advances. Since that time, however, the rise in payrolls has not been offset by increased productivity; consequently, unit labor costs have risen sharply and steadily.

While it is true that some wages in some industries have not advanced recently, because of agreements with the Administration or for other reasons, yet in wages, as in prices, there are certain "hidden advances." These take the form of "adjustments," such as extra vacations with pay, bonuses, shift premiums, overtime premiums, and so on. Since January 1, 1941, average hourly factory earnings have risen 28 per cent and the cost of living approximately 19 per cent. Average hourly earnings in the non-durable goods industries have increased 21 per cent in the same period. The relationship which exists between living costs and wage rates will not

allow any perceptible increase in living costs without touching off an avalanche of demands for higher wages due to higher prices. This is an extremely vulnerable relationship.

Not all the blame for the inflationary splurge in wage rates is due to inadequate wage-control laws. The employers must bear part of the responsibility. Profits were greater than ever before and an increase in wages was no great burden to the employer. Labor shortages in practically all areas led to reprehensible competitive bidding for labor at unheard-of wages. Frequently any increase in labor costs could be passed on, since many producers were working on a cost-plus basis. The advances granted by some industries because they "felt they could do it" became contagious, thus forcing advances in others in order that workers might be kept. Since the estimate of increase in productivity of labor for the third quarter of 1942 is only 2 per cent over that for the entire year 1941, the hourly wage advances are even more severe. The government should apply to wage determination a general policy similar to that decided upon for determining and administering commodity prices. The principle of collective bargaining is at cross-purposes with the principles of price control. Huge war profits should not be a bone of contention between capital and labor. In the interest of price control, the excessive profits, if any, should be taken by the government.

It is true that steps were taken in the legislation of October, 1942, to curb inflation; however, they were

neither positive nor dependable. The law would make it possible to exert some control over every sort of financial transaction—the prices of goods and services, wages, salaries, farm income, profits, subsidies, etc. Control over the two most inflationary items, namely, farm prices and wages, is limited and obscure. The law will not permit ceilings on farm prices below parity or current market prices, and in computing parity the cost increase since January, 1941, must be considered. Naturally, parity prices will be higher because of increases in wages and in other items of cost. The President, in an effort to counteract this tendency, ordered that parity price be considered to mean parity prices less benefit payments, which interpretation would have permitted ceilings to be applied to many farm crops near the levels which prevailed at the end of the year. The will-o'-the-wisp concept of parity may be avoided by ceilings on the commodity at the processed level which will tend to hold down the price of the raw product. However, the law requires the processor's margin to be retained, thus introducing a further complicating factor into an already complex scheme.

Wages were to be regulated for the purpose of price control, but Congress gave the President no standards except that "so far as practicable stabilization shall be on the basis of the levels which existed on September 15." This is an enigma. The wages may be frozen as of September, or they may be permitted to go up to any extent to balance a cost-of-living increase

from January 1, 1941 to May 9, 1942 (the "Little Steel" formula), or they may be adjusted to offset subsequent costs of living, or in accordance with some other policy. The language is very broad and permits increases "necessary to correct maladjustments or inequalities, to eliminate substandards of living, to correct gross inequalities, or to aid in the effective prosecution of the war." One could hardly believe that the measure, which conceivably covers such an important part of the price structure, was designed with the view of price control in mind.

The General Maximum Price Regulation

The General Maximum Price Regulation (effective May, 1942) was by far the most spectacular move in price control and probably will continue to hold that distinction, even though it gradually disappears. The "General Max" cut horizontally across all prices and contracts at manufacturing, wholesale, and retail levels unless they were covered by a definite regulation or specifically excluded. One of the fundamental purposes of the General Maximum Price Regulation was to bring under control, simultaneously, many of the items that had previously escaped. It covered about 60 per cent of the food items, about 78 per cent of manufactures and wholesale trade, and nearly 100 per cent of retail sales. (Specific exclusions appear in the Emergency Price Control Act.)

It was at once apparent that many problems would be created by the "freeze" order, but it was hoped that they could be adjusted within

the framework of already existing policy and laws.

One of the most severe problems created by the "freeze" order which fixed prices "across the board" was the "squeeze" on retailers. It was known that some retailers would be squeezed between the prices at which inventories could be replaced and their own ceiling prices. This would occur when goods sold in March were priced on lower wholesale prices which prevailed at the time they were purchased or stocked. Replacement of these goods at higher wholesale levels reduced the profit margin when they were sold at the March ceiling prices established by the Regulation. The "squeeze" was eased considerably by using the *delivered* price for the goods, since many of the goods had been purchased weeks or months before and were priced for sale in March or thereafter on the basis of the lower wholesale prices. Likewise, since many commodities were being sold at a rapid rate, their selling prices were based on the replacement cost of the items, which tended to preserve a satisfactory profit margin.

The retail "squeeze" (originally estimated by the Office of Price Administration at \$617 millions) would be severe, but the retailer would be relieved by the "roll back" of prices from the retail level through all stages back to the manufacturer. This was to be accomplished by issuing Supplementary Regulations as provided in Section 4 of the Regulation. As it turned out, the "squeeze" was severe on some but not a problem to others, for the

reason that many wholesale and manufacturing prices had already been controlled since January 1, 1942. Likewise, retail prices had advanced by a larger percentage than wholesale prices up to March, 1942.

The well-intentioned attempt of the Office of Price Administration to "roll back" the retail price "squeeze" was not very successful and was used in only a few isolated cases. The amending of Section 18 of the GMPR, which permitted price adjustments in hardship cases, made the process more simple. At once, there arose problems of pricing many commodities not delivered in March, as well as problems in regard to pricing goods not made prior to March, goods sold for delivery as long as 18 months prior to March, new goods, or seasonal goods. In fact, the number of problems which arose was far greater than anyone could have foreseen.

The result was that price formulas were devised which were intended to care for specific hardship cases. Since there was no known way of fixing prices by specific price formulas on highly styled and seasonable goods which were not standardized, resort was made to cost-plus formulas which provided for the manufacturers' costs plus any wage or other advance since the last offering date. The formulas were in most cases very complex and tended to invite trouble. They were all tailored to fit each special case with the intention of providing sellers the same margin of profits over costs that they would have received had the products been priced and

sold in March, 1942. In all fairness to the efforts to control prices, it should be remembered that the General Maximum Price Regulation was never intended to be the ultimate in price control.

Direct price control deals only with *effects* and is helpless and hopeless without control over the *causes* which make prices advance. The General Maximum Price Regulation was a horizontal move intended to hold prices at one level until specific or vertical prices could be fixed. In accomplishing this end of holding prices, the General Maximum Price Regulation never had a fair chance. The Administration promised a seven-point program which included among other things some real controls over inflationary farm prices and wages, reduced spending, and a heavy taxing program. Federal fiscal policy has been only mildly enlisted in controlling prices, and the other items have been relegated to the arena of political expediency.

There is little wonder that the March ceilings have been punctured. Likewise, it is clear that more ceilings will be raised. Costs are allowed to rise, subsidies are not permissible, and the pressure is bound to break through. The weakest point is the March ceiling. The General Maximum Price Regulation has probably served its purpose of horizontal control; next in order is specific or vertical control on each commodity item. This procedure practically forces a program of simplification and/or standardization of goods, lack of which had been one of the serious handicaps of price

control. In the face of growing shortage of goods and increased money incomes, the next necessary step in price control is universal rationing.

Other Weaknesses in Price Control

One of the most outstanding weaknesses of the Office of Price Administration and one which showed up in the first year, was the lack of full compliance and enforcement. Even though heavy penalties were provided for violations of schedules they were seldom enforced, because they were practically unenforceable. Such ambiguous provisions in the regulations as those which fixed prices on "similar services and commodities," or required a retailer to fix his price at levels of "the most closely competitive seller of the same class," or "fairly equivalent serviceability" of new products left virtually the entire responsibility for pricing up to the individual merchant. Since the ceiling prices were frequently left to the judgment of the individual, no actual order was being specifically violated. Many of the schedules were written in highly technical and legal language not readily understood by the average person. Because they were needlessly complex and shrouded in legal jargon, their interpretation frequently challenged other legal minds. These facts, together with the indifferent results attained by the educational program, made enforcement exceedingly difficult. Besides, if one sold an article at a price above the ceiling, did this violation call for civil or for criminal procedure?

Since many of the prices which were posted as ceiling prices by the merchant were prices which he himself had determined, who could say that a price ceiling had been violated? When one considers the hundreds of thousands of retail outlets in the 48 states, it is at once apparent that the policing which would be required for enforcement is an utter impossibility. It may be said that the success of the entire program depended upon a good "public relations" job of educating every person from the first producer to the ultimate consumer: first, as to the dangers of uncontrolled prices; and next, as to the ways and means of combating inflation through the enlightened cooperative efforts of all persons. To date, there is much left to be desired in this respect.

Another problem with which the Office of Price Administration has had to grapple is rationing. The lack of understanding on the part of the civilian as to what is being asked of him, and why, has brought a lack of confidence approaching a crisis on the home front. Shortages of goods and services are very real. To secure an adequate distribution of the available supply is just as important as to control the price of the goods. The problem is not one of pricing or holding prices at prewar levels but one of insuring fair distribution of goods. The announced shortages and the threats of rationing induced people to buy quickly while goods were both less expensive and still available. Machinery for rationing in 1942 was both inadequate and cumbersome. Again the public relations part of

the program has left much to be desired in enlisting a popular discipline which is necessary to change "habits of abundance" to "habits of scarcity."

It should not be forgotten that the most unpopular work of any governmental agency is that done by the Office of Price Administration. Theoretically, the Office of Price Administration would fix your prices, limit your profits, regulate your wages, tell you what to make, name the terms of your sales, and lastly tell you what you may have. The conservation orders of the War Production Board and the Office of Defense Transportation relating to automobiles, tires, gasoline, food products, fuel oil, etc.—commodities which we have heretofore enjoyed in abundance—were not orders issued by the Office of Price Administration but by these other governmental agencies. The OPA had the unpopular job of administering the orders. The orders were unpopular, hence the enforcement agency became unpopular; this unpopularity was reflected in a somewhat general opposition to price-control methods in their entirety. The American public must always have a whipping post.

Yet much has been accomplished. Some prices have been "inching" up and will continue to do so. In general, coverage is not complete but it will be extended in time. The Office of Price Administration in a year has done a good job in keeping prices to limited advances, and at the very low cost to the public of less than one dollar per capita. When one considers what might

have happened to the price structure had controls not been applied or even been applied mildly, there can be no doubt about the desirability of the Office. Likewise, if there is any doubt about prices advancing, or the need for price control, one look at the advances of the uncontrolled commodity list should be sufficient.

The big achievement relating to price control in 1942 was the getting of the necessary legislation and the

setting up of the mechanism for control. The big job in 1943 will be to make it work and to win public acceptance even though practically everyone will be more severely pinched than before. The final success of the agency will depend upon a comprehensible fiscal policy, and a sympathetic and responsive functioning of the agency itself, plus enlightened cooperation by the public for whose benefit the Office was really created.

Review of Seventh District Business

A more than seasonal expansion of department store sales, which started in November this year, carried the Federal Reserve Bank of Chicago index to 168 per cent of the 1935-39 average, an all-time November high, surpassing even the years 1929 and 1937. . . .

Production for the war program continued to maintain output at a high level, notwithstanding unbalanced production schedules, problems in the utilization of manpower, raw material bottlenecks, and changeovers to new types of war products. The result has been a flattening in the curve of industrial production and total manufacturing employment. . . .

The 1942 iron ore movement on the Great Lakes was the largest on record. A total of 92,077,000 tons was brought down from the upper lakes region. This amount was 577,000 tons in excess of the War Production goal for the year. . . .

Bituminous coal production in the District continued to gain moderately on a daily average basis, and in November totaled 6 per cent more than in the same month a year ago. The gain for the year to date amounts to about 16 per cent. . . .

Production of petroleum within the District continued at a rate of about 30 per cent below that of a year ago, and the cumulative volume for the year to date is still slightly larger than last year. . . .

Construction activity showed a definite decline from October, and the comparison with a year ago is less favorable than previously. . . . —From *Business Conditions*, A Review by the Federal Reserve Bank of Chicago, December, 1942.

Administration of Price Control in Illinois

H. K. ALLEN

State Price Officer for Illinois

THE nature, objectives, and effectiveness of the price-control program are discussed in another article in this issue. It is proposed here to consider some of the problems that have arisen in the administration of the program in Illinois. The general experience in Illinois is believed to be similar to that in other states, although the specific problems that have arisen obviously vary from state to state. Since the control of prices is essentially an economic activity, the problems faced are conditioned by prevailing economic situations.

Under the system of selective price control which was practiced from February, 1941, to May, 1942, the administration of the program was centered almost exclusively in the Washington office. Not only were the price schedules prepared there, but the program was administered from that point. With the issuance of the General Maximum Price Regulation (GMPR) in May, 1942, regional and state offices were established. The branches at these levels were charged with extensive responsibilities in the administration of the program. At the local level, price clerks and price panels were established in the War Price and Rationing Boards to handle price functions.

NOTE: The opinions expressed in this article are the personal views of the author and do not necessarily represent those of the Office of Price Administration.

The issuance of the GMPR necessitated an intensive educational campaign to acquaint the merchants and other citizens with the provisions of the regulation. Numerous meetings were held with merchants and consumer groups throughout the State of Illinois. Among the agencies which participated most actively in these meetings were Dean Charles M. Thompson's Committee of the Illinois State Council of Defense on the Adjustment of Business to War Conditions, Chambers of Commerce, the Illinois Federation of Retail Associations, the Better Business Bureaus, the State Department of Distributive Education, the United States Department of Commerce, the Bureau of Economic and Business Research of the University of Illinois, and various retail, wholesale, and manufacturing groups. Representatives of the Price Division of the State OPA Office and of local War Price and Rationing Boards attended and participated in these meetings.

In addition to the agencies mentioned, trade associations have contributed immeasurably to the educational program through their official organs, special bulletins, and personal contacts with merchants. It is doubtful whether any governmental agency ever received greater cooperation and assistance from civilian agencies than that accorded to the OPA in its educational pro-

gram. War Price and Rationing Boards have rendered a signal service by distributing and publicizing regulations, bulletins, and other types of price information in their respective areas. Because of the constantly changing nature of the program and the issuance of numerous new regulations and amendments, the educational program continues to be an important function.

Notwithstanding the extensive educational programs of the OPA, many inquiries concerning the price regulations are directed to the State Office through letters, telephone calls, and personal visits. These inquiries are handled by members of the staff who have had extensive practical business experience. Thorough knowledge of commodities, trade practices, and applicable regulations qualifies these individuals to assist businessmen in problems pertaining to price control. The major fields to which staff members are assigned include foods, clothing, fuels, consumers' durable goods, machinery, lumber and building materials, and the service trades.

With the freezing of prices "across the board" by the GMPR, it was inevitable that some sellers would be "squeezed" between the prices at which inventories could be replenished and their own ceiling prices. Whenever goods sold in March were based on lower prices prevailing in a previous period when they were stocked, a reduced margin could be expected. As these goods were sold and had to be replaced, the margin between replacement costs and maximum selling prices would be reduced. Such a condition

might be expected to arise most frequently in connection with certain types of clothing, consumers' durable goods, and other items which are customarily purchased long in advance of the selling period. A "squeeze" could also result when a merchant was selling a price-controlled product at a bargain rate or as a loss leader during the base period.

That the possibility of squeeze situations was anticipated by the OPA is evidenced by the fact that the GMPR provided that "any seller at retail who finds that the maximum price of a commodity or service established for him under the provisions of section 2 or 3 of this Regulation is abnormally low in relation to the maximum prices of the same or similar commodities or services established for other sellers at retail, and that this abnormality subjects him to substantial hardship, may file an application for adjustment of that maximum price in accordance with procedural regulations which will be issued by the Office of Price Administration." Another provision of the GMPR provided relief for retailers who were caught in a general squeeze situation.

When the Service Trades Regulation was issued in July, 1942, it also provided for the adjustment of abnormally low prices. In accordance with the mandate of the Emergency Price Control Act of 1942 that maximum prices should be "fair and equitable," other measures were adopted to provide means whereby manufacturers, wholesalers, and other sellers might obtain relief, but

for these groups the guiding principle was that any adjustment in maximum prices should not contribute to the spiral of inflation. With few exceptions, the special regulations have provided for relief through petition or otherwise.

Hundreds of applications for the adjustment of ceiling prices have been received and processed; a large majority of these have been of the so-called "abnormality" type. In order to assure an adequate supply of essential commodities, numerous adjustments had to be made for individual manufacturers, packers, and processors. Since these adjustments were seldom passed on to the wholesalers and retailers, the margins at these levels were reduced. The fact that net profits have declined because of a reduced volume of business has not in itself been generally accepted by the OPA as a justification for relief. To have done so would have resulted in a serious threat to the price-control program. The case of automobiles, electric appliances, and other items affected by priorities illustrates this point. Reduced profits resulting from higher costs of doing business, moreover, have not been generally accepted as a justification for an upward adjustment in ceiling prices, although wage increases between February 1 and April 27, 1942, have been taken into consideration in processing applications for adjustments in service charges.

Early in November, 1942, a development of great importance in the adjustment policy of OPA occurred in the form of an announcement that the so-called "abnormality" ad-

justment provisions for commodities under the GMPR would expire on December 1, 1942, and the "abnormality" basis for services would expire on January 1, 1943. The effect of this important shift in policy is that an individual seller may not secure an increase in a ceiling price merely because his maximum price is abnormally low as compared with that of other sellers of the same class.

Individual adjustments of the abnormality type were discontinued for at least two reasons. In the first place, sellers who were suffering substantial hardship because their prices were abnormally low as compared with those of their competitors had been given a seven-months period in which to apply for adjustments. Second, by November, 1942, several new regulations had been issued which placed all sellers covered by them on a more equitable basis.

Individual adjustments may still be secured in some cases under strict limitations by petition or otherwise, but the new policy establishes the principle of "local shortage" as the principal basis for price adjustments. It is expected that a large majority of adjustments under the local-shortage principle will be made on a community or area basis rather than on an individual basis. The fact that an individual seller may be suffering severe hardship under price regulations is not an acceptable ground for relief unless he is an "essential seller" of an "essential commodity." The new policy requires that there be "an affirmative economic adjustment behind each

price adjustment," and the guiding principle will be an actual local shortage or a serious threat of local shortage of an essential commodity.

The new adjustment policy may appear to be harsh, but it will be observed that it is in accordance with the nature of total war. Total war requires that all the resources of the country be applied to the prosecution of war except those absolutely necessary to preserve the health and morale of the civilian population. If a seller is not providing an essential commodity or service, the presumption is that the labor and capital employed in his business should be converted to the prosecution of the war or to another essential civilian enterprise. That many obstacles will be encountered in the practical administration of this principle is evident. It is often difficult or impossible to convert a business from one type to another. Too rigid an application of the principle may result, moreover, in rendering some labor and capital idle for considerable periods of time, if not for the duration.

Several adjustments have been granted in Illinois under the new policy. For example, an order was issued which prescribed new optional maximum prices for milk at both wholesale and retail for the entire region in which Illinois is located. Previous to the issuance of the general milk order, adjustments were granted on milk prices to several communities in the State. The coal dealers in Peoria were granted an increase of 25 cents per ton in coal prices because a serious shortage of the coal supply of the

city was threatened. The garbage haulers of Decatur were granted an increase in their hauling charges because more favorable opportunities were available for the haulers in other pursuits, and an increase was necessary to prevent a discontinuance of the service.

The objective of price control is not merely to retard inflation; it is also intended to stimulate maximum production for war purposes. The attainment of the latter objective does not mean that the production of goods and services for civilian purposes may not be reduced. The adjustment policy described above in fact contemplates a reduction in the production of civilian goods. Circumstances render it practically impossible to analyze the effects of price control upon production. Besides price control, production is affected by the extensive diversion of man power from civilian pursuits to military service, by priorities, and by other factors.

Because of their confidential nature, complete statistics on war production are not available. It is no doubt true that the price-control program has adversely affected the production of some types of civilian goods, but the net effect of the program upon total production is probably favorable. Production has been promoted to the extent that the program has made for greater stability in the economic system than would otherwise have prevailed. Agricultural production has not yet felt the direct impact of price control to any considerable extent, because unprocessed agricultural products have been largely exempt. New records

the production of several types of agricultural products were established in 1942. Total production for both civilian and war purposes in 1942 far exceeded that of any previous year in the history of this country.

More definite facts are available to indicate the success of the price-control program in controlling inflation than are available to show the effects of the program on production. From December, 1941, to November, 1942, according to the Bureau of Labor Statistics, the cost of living increased 8 per cent, whereas the increase for a corresponding period in the first World War was 3 per cent. The comparison is all the more striking when cognizance is taken of the great extent to which war expenditures during the present war have exceeded those in the other war. It should be noted, however, that the cost of living index is based on prices and does not reflect possible deterioration in quality. The increase in the cost of living would have been even less in 1942 except for the fact that approximately 30 per cent of all foods remained exempt from price control until October, 1942. The prices of foods still uncontrolled by OPA—mainly fresh fruits other than citrus fruits, and fresh vegetables—increased 21.3 per cent from May 12 to November 17 of last year. The effect of a temporary lifting of a maximum price regulation was strikingly illustrated recently when the ceiling on mutton was suspended pending the issuance of a new permanent order. From December 5 to December 12, 1942, when the ceiling was not in effect,

the rise in the average price of all grades of mutton at New York was from 13½ cents per pound to 26 cents per pound. Although this case is no doubt unusual, it does suggest that price ceilings can withstand considerable pressure.

The greatest obstacle to the success of the price-control program is the large inflationary gap that we have in this country. Purchasing power during the current fiscal year will probably exceed the available supply of civilian goods at present prices by approximately twenty billion dollars. Unless this situation is remedied by increases in tax collections and by larger purchases of bonds by individuals, a substantial amount of inflation is inevitable. Any expansion in the rationing program, however, will tend to reduce the inflationary pressure, but it is not administratively feasible to expand rationing sufficiently to prevent inflation.

During the first months that the price-control program was in effect, it was seriously handicapped by the fact that wages and several important food items were not covered. Although a considerable measure of control was extended to these items in the last quarter of 1942, agricultural products in the unprocessed state still remain largely free from price control. These gaps have created numerous pressures and have forced increases in the ceiling prices of many commodities.

In its internal operation, the most serious obstacle to the success of the price-control program is the multiplicity and complexity of the regulations. In addition to the Gen-

eral Maximum Price Regulation and the Service Trades Regulation, the program includes more than three hundred special regulations and numerous amendments and special orders. Because of the numerous and complex regulations which apply to many businesses, it has been exceedingly difficult for them to establish their prices correctly. As a result, many sellers have followed their usual practice of pricing their merchandise in accordance with their customary markups. Besides contributing somewhat to inflation, the complexity of the regulations has created a feeling of uneasiness in the minds of many merchants and has rendered some of them unfriendly to the program.

It is not the purpose of the writer to attempt to defend the complexity of the price regulations, but some explanation of the factors which created the situation may be apropos. In the first place, it must be recognized that business organization and business practices in this country are extraordinarily complex. This fact precluded the establishment of an effective and equitable system of price control in a simplified form. General, vague regulations would have permitted too many avenues for escape. Price control, moreover, had never been attempted before on an extensive scale in this country, and the program had to be established somewhat on a trial-and-error basis. Finally, the rapidly changing conditions of the past year made changes in the program imperative.

Marked progress has been made in recent months in the direction of simplification of price regulations.

Maximum prices have been set in specific dollars-and-cents terms on an increasing list of items including bicycles, refrigerators, tires and tubes, nylon stockings, silk stockings, rubber footwear, and meats and poultry at wholesale.

Another type of simplification is represented by a regulation which was issued in October, 1942, with specific percentage markups over net cost on eleven categories of food items. The markups vary for different types and sizes of stores and for the various items. This percentage markup plan has been extended to cover several other food items, and practically all foods that are still under other regulations will be brought under the plan in the near future. It is contemplated that the maximum prices established under the percentage markup plan will later be converted into specific dollars-and-cents terms. Many other commodities will probably be placed under one or the other of the two types of simplified regulations. Complicated formulas will have to be retained for situations not amenable to simple regulations.

The price-control program seems to have almost the universal support of consumers. The general objective of the program is approved by a large majority of businessmen, but its mechanics has been vigorously criticized by some merchants. Compliance with the regulations has in general been favorable. As previously suggested, some violations have occurred where merchants employed customary markups rather than the pricing methods prescribed in the regulations. Regulations have

been widely ignored in the case of a few commodities, such as eggs and wool, when existing regulations were ill-adapted to the current situation and new regulations had not yet been issued. The number of flagrant violations has been relatively small, and these cases are being appropriately dealt with by a well-staffed enforcement division.

Because of the formidable obstacles to price control, the success of the program should be measured in terms of what it accomplishes rather than in terms of what it fails to accomplish. The program cannot be expected to achieve perfection, but the objective should be to move as far as possible toward that goal.

General Conditions

The close of a year of war finds the United Nations on the road to victory. There is, however, no occasion for relaxation or complacency as we have only begun to take offensive action, and a long, hard ordeal lies ahead. The progress made in the course of the year is remarkable in view of the obstacles that had to be overcome. The United States is now producing war equipment equal to the total output of the Axis powers. By the end of next year this country will be producing nearly as much combat equipment as the rest of the world combined. . . .

It is estimated that American industry this year will produce fifty-five billion dollars' worth of war goods . . . war production will be at the annual rate of eighty-four billion dollars. . . .

Civilian and military employment totaled 59.5 million persons in October, a gain of 300,000 for the month, according to the National Industrial Conference Board. Nearly sixty per cent of all persons over fourteen years of age in this country are currently employed or in military service.

Steel mills are operating at around 99.5 per cent of capacity. . . .

The automobile industry now employs about 930,000 workers, or around one fifth more than during the peak of its peacetime operations. It is producing at the annual rate of seven billion dollars' worth of products, the equivalent value of eight and one half million cars and trucks, or approximately three fifths more than the output in any one year. . . .

Construction contracts awarded in November were the highest for that month on record. . . .

From the first of the year to mid-December, department store sales, on a nation-wide basis, aggregated about eleven per cent above the same period of 1941. . . .

For the duration we are called upon to shelve our individual freedom and to concentrate our efforts on the war in order to assure victory. But now and then we should lift our sights above the smoke of battle in order to keep clearly before us the goals for which we are fighting.—From *New England Letter* (First National Bank of Boston), December 31, 1942.

Illinois State Fiscal Problems

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FISCAL problems in Illinois fall into two groups: (1) those resulting from the impact of the war upon State revenues, and (2) those resulting from defects which are inherent in the revenue system itself.

The Illinois State taxing system is closely connected with the retail market. The major tax laws of the State—the Retailers' Occupation Tax Act, the Public Utility Revenue Act, the Liquor Gallonage Tax Act, the Oil Production Tax Act, and the Cigarette Tax Act depend for their effectiveness on the health of that market. Increases or decreases in retail prices, consumers' goods, and purchasing power have a significant effect upon the revenue collected by the taxing agencies of the State. All of these have been affected by the War and will continue to fluctuate for the duration. Significant changes in some of these fields, resulting from administrative or legislative action by the Federal government or from alterations in the economic life of the nation brought about by the War, must be balanced against changes in the others, and no criteria yet exist which permit an evaluation of the effect of any single change or group of changes upon the national economy. A rise in prices, other things being equal, means an increase in State revenue. A decline in the amount of consumers' goods available, other things

being equal, means a decrease in State revenue. Higher wages normally lead to increased dollar volume of sales, but this may be more than offset by a decrease in the total volume of consumers' goods available.

The reason that none of these factors can serve as safe guides for future State fiscal policy, however, is that we are now in a wartime economy in which every phase of public or private activity is highly changeable and extraordinary variations in policy and approach are considered normal.

For example, in the calendar year 1942 increases in purchasing power and in prices far outweighed reductions in available consumers' goods and in retail establishments. As a result, the State of Illinois accumulated in the General Revenue Fund of the State treasury a surplus of approximately \$50 millions. Whether a complete reversal of this trend may be expected in the future, or whether surpluses will continue to pile up, is not an easy question to answer. The depletion of inventories, increased taxation, heavy emphasis on the purchase of war bonds, the induction of men into the armed forces, the curtailment of consumers' credit, and rationing programs which are only now beginning to assume extensive proportions will, of course, operate to diminish State income. On the other

and, spiraling prices and higher wages would operate to increase State revenues.

Other factors, besides purely national ones, must also be considered. If the War continues for the next two years, the revenues of the State may decrease substantially. If the military situation grows worse and taxation is increased beyond its present levels, the State will be confronted with an exceedingly serious situation. If military successes continue but the War is still being waged in 1945, State revenues will probably remain fairly constant. If the War should end earlier, a totally different prospect will be presented.

Military victory will be the prologue to many domestic difficulties. Millions of men discharged from the armed forces and multitudes of others released from the manufacture of war materials may be forced to shift for themselves until such time as private enterprise can readjust itself to production for civilian uses. Many women who are securing employment in types of work which were previously not open to them may not be willing to withdraw as competitors of men for similar kinds of work after the war is over. Hospitalization of our wounded and vocational rehabilitation of men who have neglected the arts of peace for the grim job of war will multiply our peacetime problems. Unemployment, disrupted homes, increased delinquency, and other forms of economic and social dislocation will inevitably follow in the wake of the present struggle.

In spite of the difficulties which make any prophecy in regard to fu-

ture revenues exceedingly hazardous, it is probable that the business of the State during the next two years can be conducted with income realized in those years under the existing State tax laws. If the State can live within its income during the next biennium, it will have a sizeable surplus of over \$50 millions in the General Revenue Fund for the treasury. Since it was apparent that one of the important problems which would face the 63rd General Assembly would be the disposition of that money, studies were made within the executive branch of the government for the purpose of exploring the possibilities and assisting the legislature in handling the situation wisely.

Four courses of action were proposed: (1) Retire, to the extent possible, the bonded indebtedness of the State; (2) Appropriate the surplus into a special reserve fund, there to be kept intact and unused until the end of the War or the convening of the 64th General Assembly, whichever occurred first; (3) Leave the surplus strictly alone and permit the General Assembly, if it so desired, to appropriate it, or a part of it, for whatever purposes were deemed necessary; or (4) Invest in Federal securities that portion of the surplus not needed as a working cash balance, thus putting it to work during the War and insuring its availability afterward.

The retirement of the bonded indebtedness of the State was at once the most acceptable and the least feasible of these possible courses. The major objection was that, except for an insignificant amount, the

bonds of the State of Illinois are not callable. Another was the fear that the outstanding bonds would be subjected to unwarranted manipulation if bond holders became aware of the fact that the State was in the market for \$50 millions worth of bonds.

The idea of appropriating the surplus into a special reserve fund and sterilizing it until the cessation of hostilities was discarded because no General Assembly may make appropriations except for the ensuing biennium, and then only for "the ordinary and contingent expenses of the Government."

The proposal that the surplus should be left strictly alone was eliminated. Since the Legislature would have the final word on the matter under any circumstances, it seemed unnecessary to make a recommendation of this nature.

It was decided to recommend the fourth course of action, and, at this writing, a bill to authorize the investment in Federal securities of all the money in the State treasury not needed as a working cash balance has been introduced into the Legislature. The bill has passed the House and is now awaiting further action in the Senate.*

The constitutional limitations on the taxing power of the State of Illinois and the strict construction placed upon the revenue provisions of the Constitution by the Illinois Supreme Court have been a source of considerable discussion among both taxpayers and State officials. These discussions have been, in the main, unproductive of significant re-

sults since they have failed to emphasize the fact that the revision of Article XIV of the Constitution dealing with the amending procedure is a condition precedent to any real change in the revenue system of the State. The modernization of State and local taxing structures in Illinois still remains a mirage after thirty years of constant effort, and the lag between social and economic developments on the one hand, and tax reform on the other, has naturally led to considerable irritation in certain quarters. This irritation has been aggravated by two factors: first, the Illinois taxing system does not rest upon an equitable basis; and, second, it is virtually impossible under the present amending article of the Constitution to secure any change in the basic law of the State.

Excise taxes of the type levied in Illinois are admittedly regressive in nature and are difficult to justify except on the ground of urgent necessity. Such taxes fall directly upon the consumer, thus casting a heavy burden upon lower-income groups and a comparatively light burden upon higher-income groups. Very little can be done about this situation, however, so long as the Constitution of 1870 permits the General Assembly to levy only three types of taxes: property taxes, privilege or franchise taxes, and occupation taxes. The rising costs of government and the inability of property to produce sufficient revenue in emergencies contributed to the abandonment of real and personal property taxation by the State government. Franchise or privilege

*The bill passed the Senate on January 27, and was signed by the Governor on January 28.

taxes are currently being imposed to some extent, but they produce little revenue. Occupation taxes—the third type—are very productive, and for that reason must continue to remain in effect, despite their many disadvantages, until such time as other tax measures more equitable in nature, and not likely to be declared unconstitutional, can be enacted. The fact that Illinois operates on a pay-as-you-go basis renders it extremely dangerous to tinker with existing tax laws.

It is apparent from a consideration of the revenue article of the State Constitution and the Supreme Court decisions thereunder that the only possibility of securing a more flexible taxing system lies in amending the State Constitution. The obstacles in the path of such an achievement, however, are almost insurmountable. Every Governor of the State of Illinois since 1912 has recognized the necessity for constitutional reform, and many of them have vigorously and continuously sought to bring about a change in the revenue and amendment articles of the Constitution. All these attempts have failed. The reasons for this failure are not difficult to uncover. Of the 48 States in the Union, 39 permit the adoption of a constitutional amendment when a majority of the persons voting on the question favor it. In five states, of which Illinois is one, a favorable majority of those voting at a general election is required. Two of these five, Arkansas and North Carolina, are apparently able to adopt amendments because they restrict the number of voters through

poll taxes and thus have a smaller proportion of indifferent voters. Moreover, general elections in such southern states are of relatively minor importance, due to one-party dominance. Wyoming, another of the five, is in a more favorable position than Illinois because it has a much shorter ballot and voters are more likely to vote on propositions.

A careful analysis of the problem leads to the conclusion that unless some new approach is made to the problem of constitutional amendment, the taxing system of Illinois must remain stagnant. Revision of the revenue article, either through the use of the present amending system or through variations of that system, is extremely difficult because such action is actively opposed by powerful pressure groups. However, since the amending article is the core of the difficulty, it should be considered first. If it ever becomes possible to secure the adoption of constitutional amendments in Illinois by the affirmative voice of a majority of the voters voting on the amendment, the door to reform of the revenue system, senatorial and congressional reapportionment, and many other needed changes will swing open.

A number of devices have already been proposed by various individuals and groups which might permit the passage of a constitutional amendment liberalizing the amending article, but none of these has been either adopted or supported by a substantial number of citizens or of citizen groups. Among the foremost of these is the plan to place the proposed amendment on a separate

small ballot so as to insure at least a consideration of the proposition. The present procedure of placing the proposed amendment in the upper left-hand corner of the ballot results in a non-voting percentage of approximately 50 per cent. Another is to secure the approval of both major political parties, and then to incorporate an amendment proposition in the ballot in such a manner that a vote in the party circle will be a vote for the amendment. During the period between

1870 and 1891, when ballots were printed and provided by the political parties and straight party votes were counted in accordance with the attitude of the party on the constitutional question, five amendments were proposed and all five were adopted by popular referendum.

In any event, until it is thoroughly realized that revision of the amending article must precede revision of the revenue article, it is almost certain that the existing tax structure in Illinois will remain unchanged.

Income Taxes in the United States, Canada, and the United Kingdom

Although personal income taxes in the United States will be much higher in 1943 than in 1942, they will still be lower than those paid by citizens of the United Kingdom and of Canada. Among the *lowest* income groups, income taxes in the three countries depend greatly on the size of the taxpayer's family. Personal exemptions in the United Kingdom are \$320 for single and \$560 for married taxpayers, as compared with \$500 for single and \$1,200 for married taxpayers in this country. In Canada, single persons with incomes below \$600 and married persons with incomes below \$1,091 are not taxed under the income tax. Persons with higher incomes are taxed on their entire income, not merely, as in the United Kingdom and the United States, on income exceeding a certain amount.

Beginning with incomes of about \$1,000 for single taxpayers and about \$1,500 for married taxpayers, both British and Canadian tax rates climb rapidly above those paid in the United States. A single taxpayer with a net income of \$5,000, for instance, has a total liability of \$1,167 in the United States, as compared with \$1,975 in the United Kingdom, and \$2,180 in Canada. At the \$10,000 level, total liability in the United States amounts to less than \$3,000, as compared with more than \$4,600 in the United Kingdom and more than \$5,200 in Canada. Over the *higher* income ranges, rates in the United States approach, but never reach, those in Canada and Great Britain. —From article by R. A. Musgrave, *Federal Reserve Bulletin*, December, 1942.

The 1942 Revenue Act and the Individual

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ANOTHER year has brought another Federal income tax law, and its provisions are even more severe than those of the 1941 act. The act of 1942 was signed by the President on October 21. All but a few of the changes made are effective for fiscal years beginning after December 31, 1941.

The 1942 law, like its immediate predecessors, is not a complete law, but consists of a series of amendments to the previous laws. The last complete law was the revenue act of 1938.

In the following pages a few of the principal provisions of the current law (and of the still valid sections of the earlier acts) will be discussed briefly, with particular reference to the application of the law to the individual taxpayer, as opposed to the corporation.

Requirement as to Filing a Return

As was provided in the acts of 1940 and 1941, an individual's obligation to file a return is determined by the amount of his *gross* income and not by the amount of his *net* income. As the personal exemptions have again been lowered, a return must be filed for the year 1942 by an individual who is single if his gross income was \$500 or over; and by a married individual if the aggregate gross income of husband and wife was \$1,200 or

over. If both husband and wife have separate incomes, each may file a return, or the combined income may be included in a single joint return. If separate returns are filed, an arbitrary division of the joint income cannot be made.

Every partnership must file a return, irrespective of the amount of its net income or its net loss. The partnership return is more properly to be designated as an information return rather than as a tax return; for no tax is assessed against the partnership as such. Each partner must include with his other income his share (whether distributed or not) of the earnings of the partnership, as reported in the partnership return. Thus, if in 1942, a partnership had a substantial profit, but the cash balance was not sufficient to make it advisable for the partners to withdraw their shares of this profit until 1943, they would nevertheless be obliged to report these earnings as part of their 1942 incomes, and not as part of their incomes for 1943.

Time of Filing Returns

Except in the case of persons abroad who are members of the military or naval forces of the United States, a return for a calendar year must reach the collector on or before March 15 of the following year. A return for a fiscal

year that does not coincide with a calendar year must be filed not later than the 15th day of the third month following the close of the fiscal year.

Rates of Tax

The income of an individual in excess of certain deductions and certain credits allowed him is subject to a normal tax of 6 per cent, and to a surtax at various rates ranging from 13 per cent to 82 per cent. Under the immediately preceding law, the normal tax rate was 4 per cent, and the range of the surtax rates was from 6 to 77 per cent. The rates on small and moderate incomes have increased much more sharply in the last two years than the rates applicable to large incomes. Thus, the surtax on a "surtax net income" of \$4,000 was zero under the 1940 law; was \$300 under the 1941 law; and is \$580 under the 1942 law. On a surtax net income of \$8,000, the successive surtaxes have risen from \$200 to \$900 to \$1,460. On a "surtax net income" of \$100,000, the 1940 surtax was \$36,780, the 1941 surtax was \$49,780, and the 1942 surtax is \$59,140.

Taxable Net Income

Each successive revenue act has specified that certain types of income are subject to tax, and that certain other kinds of income are exempt. Each has distinguished also between those expenses that were allowable as deductions and those that were not. A person's net income for tax purposes represents the difference between taxable in-

come and deductible expenses. This may, of course, be a very different amount from the net income shown by his records.

The most common kinds of taxable income are compensation for services, i.e., salaries, wages, fees, commissions, etc.; profits from a business; gains on the sale of land, stocks, bonds, etc.; and rent, interest, and dividends.

Exempt Income

The most important kinds of income not subject to tax are (1) amounts received under a life insurance contract by reason of the death of the insured; (2) certain annuities, or portions thereof; (3) the value of property received by gift or by inheritance; (4) interest on the bonds of a state or of a political subdivision of a state (such as a county, a city, etc.); and (5) interest on certain obligations of the United States issued prior to March 1, 1941.

Deductible Expenses

Most business expenses are deductible, and most personal expenses are not. A merchant may deduct the wages paid to the persons employed in his business, but not the wages paid to his domestic servants. He may deduct the cost of repairs to his business building and equipment, and of the insurance thereon, but he cannot deduct expenses of this type that are incurred in connection with his residence. He may not deduct directly the cost of business property hav-

ing a useful life of more than a year, but he is permitted to deduct this cost indirectly year by year during the useful life of the asset, in the form of charges for the annual depreciation. This deduction is not allowed in the case of his residence.

Personal Expenses

In spite of the general rule against the deductibility of personal expenses, four classes of personal expenses have been specified by previous revenue laws as allowable deductions. The 1942 law has added a fifth and a sixth. The original four were taxes, interest, losses, and contributions. Medical expenses, within specified limits, and alimony have now been added.

Real estate taxes and personal property taxes, even though they have been assessed against property that is held for private use, are fully deductible. So also are state income taxes, automobile license fees, automobile use taxes (\$2.09 and \$5.00 paid in 1942) and gasoline taxes; taxes on admissions, club dues, and transportation; taxes on telephone service, and on cable, radio, and telegraph messages. State sales taxes, prior to 1942, were deductible or not, according to whether the state law levied the tax against the customer or against the vendor. The 1942 law provides that henceforth these taxes shall all be deductible. It will be noted that this is an exception to the general rule that taxes may be deducted only by the person against whom they are as-

sessed. Federal income taxes and special improvement taxes are not deductible.

In general, interest paid, whether incurred in connection with one's personal or business affairs, represents a deductible expense. The principal exception is interest paid on money borrowed to purchase state, county, city, or school district bonds, the income from which is exempt from taxation. The 1942 law provides that interest on indebtedness incurred to purchase a single-premium life insurance or endowment contract shall likewise be a non-deductible expense.

Losses resulting from fire, storm, theft, shipwreck, or other casualty are deductible. If the property was insured, only the net loss in excess of the insurance received can be claimed as a deduction.

Contributions made by an individual to organizations formed and operated exclusively for religious, charitable, educational, or similar purposes, or to any of the governmental units of the United States are deductible to a total amount not in excess of 15 per cent of the taxpayer's net income.

Medical, hospital, dental, and similar expenses are now allowed, in part, as deductions. If expenses of this type do not amount to more than 5 per cent of the taxpayer's net income they are not deductible. Expenses in excess of 5 per cent of the net income are deductible; i.e., the amount deductible is only the excess over the 5 per cent. The maximum deduction permitted is \$2,500 in the case of a married per-

son or the head of a family, and \$1,250 in the case of other persons.

Alimony and separate-maintenance payments are allowed (for the first time) as deductions by the 1942 law.

Credits Against Income

Important changes were made by the 1942 law in the credits against a taxpayer's net income. An unmarried person is now entitled to a personal exemption of \$500 of his net income. Under the 1941 law the exemption was \$750. A married individual, living with husband or wife, or a "head of a family," is allowed a personal exemption of \$1,200 (formerly \$1,500). But a person below the grade of commissioned officer in the military or naval forces of the United States is granted an additional allowance of \$250 if single, or \$300 if married or head of a family. This allowance cannot, however, exceed the remuneration actually received from that source during the taxable year. If a husband and wife file separate returns they are permitted to divide the personal exemption between them in any agreed-on proportion. Usually, therefore, the one having the larger net income will claim the larger part, or all, of the personal exemption.

Each child under 18 years of age, or other person incapable of self-support because he is mentally or physically defective, who was receiving his chief support from the taxpayer throughout the taxable year entitles the taxpayer to a further credit of \$350 (formerly \$400). However, an unmarried taxpayer

whose status as head of a family results from his having one or more dependents is now denied the credit for one such dependent. Thus if he has only one dependent he has a \$1,200 personal exemption, but not the \$350 credit. If there are two dependents, he has the \$1,200 personal exemption, and a credit of \$350 for one dependent only.

The personal exemption and the credit for dependents are applied against the net income before computing either the normal tax or the surtax. Certain additional credits are allowed for the purpose of the normal tax only, namely, (1) interest on certain United States obligations and on the obligations of those corporations classed as "instrumentalities of the United States," provided these obligations were issued prior to March 1, 1941, and (2) a so-called "earned income credit."

"Earned income" should normally mean wages, salaries, professional fees, etc., as opposed to income from dividends, interest, rent, etc. One-tenth of a taxpayer's earned net income, with certain limitations, is free from the normal tax and constitutes the "earned income credit" mentioned above.

However, the distinction between earned income and other income is not maintained consistently in the law. The first \$3,000 of every taxpayer's net income is treated as earned income, whether actually earned or not; and if a taxpayer receives a net salary or other compensation in excess of \$14,000, only the first \$14,000 thereof is con-

sidered to be earned income. If a taxpayer operates a business of his own, 20 per cent of his net profit is treated as earned income, with a maximum limit, again of \$14,000. If a taxpayer is a member of a partnership and devotes all or a part of his time to its affairs, an appropriate part of his share of the net income of the partnership, but not in excess of 20 per cent of his share, is treated as earned income.

Capital Gains and Losses

Under the 1942 act capital assets are defined as any property held by the taxpayer, with the following three exceptions: (1) property which constitutes his "stock in trade" and which he would expect to sell to his customers in the ordinary course of his business; (2) property, used in his trade or business, which is subject to an allowance for depreciation; and (3) land used in his trade or business.

Capital gains and losses are classified as "short-term" or "long-term," depending upon whether the capital asset disposed of had been held (a) for not more than six months, or (b) for a period longer than six months. In determining the taxable income of a taxpayer it is necessary to offset short-term capital gains against short-term capital losses, in order to determine the *net* short-term capital gain or loss; and to offset long-term capital gains against long-term capital losses to the extent to which each is to be taken into account, in order to determine the *net* long-term gain or loss.

In the case of taxpayers other than corporations, only 50 per cent of the gain or loss is to be "taken into account" for tax purposes if the capital asset disposed of had been held for more than six months.

After the proper percentage has been applied in the case of long-term gains and losses, the net long-term gain or loss may, or may not, be combined with a net short-term gain or loss. At least ten different situations may result from a taxpayer's having capital gains or losses, or both. Lack of space makes it impracticable to include in this article a statement of the procedure to be followed in each of the possible situations.

Sale of Property Received as a Gift

If property is sold that was given to the taxpayer before January 1, 1921, the "basis" for determining the taxable gain or the deductible loss is the value of the property when it was received. ("Basis," in income tax accounting, may be defined as the cost of an asset, or a value substituted for the cost.) In the case of property received as a gift after December 31, 1920, the basis for determining the taxable *gain* from the sale of the property is the same as it would be if the sale had been made by the donor, or by the last preceding owner by whom the property had not been acquired by gift. But for the purpose of determining *loss*, the basis will be that just stated, or the value of the property at the time of the gift, whichever is lower.

Sale of Property Acquired by Inheritance

If property acquired by inheritance is sold, the basis for tax purposes is its fair market value at the time of the decedent's death, regardless of the time when the taxpayer came into possession of the property.

Computation of Tax for a Fiscal Year Not Ending on December 31

A taxpayer whose fiscal year ends not later than June 30, 1942, will compute his tax according to the rates applicable to the calendar year 1941. For a fiscal year ending after June 30, 1942, and before December 31, the tax must be computed twice—at the 1941 rates and at the 1942 rates. A proportionate part of the two results obtained is to be calculated according to the number of days (1) from the beginning of the fiscal year to June 30, 1942, and (2) from July 1 to the end of the fiscal year. The sum of the two results will be the tax payable.

Optional Special Method for Computing Taxes

The 1942 law, like that of 1941, includes a special rate schedule which may be used, at his option, by an individual whose gross income is not in excess of \$3,000 and is derived wholly from one or more of the following sources: salaries, wages or other compensation for personal services; dividends, interest, or annuities. It may be noted that rents and royalties are no longer included in the list.

If a taxpayer elects to file his return according to the optional method, his marital status and his status as to dependents on July 1 determine the amount of the credits against his net income. Each dependent on that date entitles him to a credit of \$385, as opposed to the usual \$350 credit for a dependent who has been supported throughout the year. It will be remembered that under the ordinary method of computing income taxes, if the status of an individual changes in the taxable year, the personal exemption and the credit for dependents are prorated according to the number of months for which each status existed.

The optional method is offered by Congress in order to permit a taxpayer to determine his tax with a minimum of effort. The audit of the returns prepared according to this method should likewise prove a much simpler task for the Bureau. The tax payable under this method may prove to be either greater or less than that which would be payable if the ordinary method were followed. If the taxpayer's deductible expenses are in excess of 6 per cent of his gross income, it will usually be more advantageous for him to use the regular method.

The Victory Tax

This is an additional tax, imposed by the 1942 act, and is to be levied on the income of individuals for the year 1943 and until the "cessation of hostilities in the present war." A specific exemption of \$624 is allowed each taxpayer. The tax is to be withheld on wages and salaries at

the source, except in the case of domestic servants, persons employed in agricultural pursuits, and certain other employees.

As soon as is practicable after the end of the War, certain credits or refunds of a part of the tax will be given the taxpayer. For single persons this credit will be 25 per cent of the tax paid, or \$500, whichever is the smaller. For married persons the credit is 40 per cent, or \$1,000, whichever is less. For each dependent there is a further credit of 2

per cent, or \$100, whichever is the smaller.

The following items, wholly or in part, will also be allowed each year as credits against the Victory Tax: (1) premiums paid on life insurance in force on September 1, 1942; (2) payment of debts incurred prior to September 1, 1942; and (3) purchase of United States war bonds. However, the total allowance for the three items cannot exceed the amount of the postwar credit or refund.

Decrease in Old Age Assistance in Illinois

One result of the war production effort in Illinois is that there has been a decrease of almost 20 per cent in the number of citizens receiving old age assistance. Pending applications for such relief in December, 1942, showed a decrease of 43 per cent below the figure for December, 1941. In some cases, wartime jobs are now being filled by men over 65 whose skill can be used to advantage now that there is a shortage of manpower. In others, younger persons employed in war industries receive wages sufficiently high for them to support their parents. Those on the old age assistance rolls are encouraged to accept work, and are promised supplementary aid or restoration to the relief rolls, if their jobs do not provide the necessary self-support.

PRELIMINARY ESTIMATE OF CIVILIAN POPULATION OF ILLINOIS IS AS FOLLOWS:

State	Total Population April 1, 1940		Estimated Civilian Population April 1, 1940		Estimated Civilian Population May 1, 1942		Estimated In- crease in Civilian Population April 1, 1940— May 1, 1942	
	Number	Per Cent of United States	Number	Per Cent of United States	Number	Per Cent of United States	Number	Per Cent
Illinois.....	7,897,241	6.0	7,875,107	6.0	8,008,067	6.1	132,960	1.7
United States Total.....	131,669,275	100.0	131,323,136	100.0	131,315,393	100.0	-7,743	...

Source: Bureau of the Census, United States Department of Commerce.

Achievements of American Industry: 1940-1943

A. G. ANDERSON

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M.S., University of Illinois, 1942

Industry a Year Ago

THE bombing of Pearl Harbor did not catch American industry altogether unprepared to meet the challenge of production for total war. Ever-mounting defense orders, contracts with belligerent countries, and a sense of the impending crisis had already led many concerns into wartime activities. In the spring of 1941, machine tool companies began to build large back-orders for their products. For example, one company which produces turret lathes had increased its sales from \$9 millions in 1939 to \$19 millions in 1940, and to nearly \$35 millions in 1941.

Other companies were already planning the construction of new facilities for producing tanks as early as June, 1940. In September of that year, work was started on what was to be the world's largest tank arsenal. Six months later the first of these 25-ton juggernauts began to roll off the assembly lines. The capacity of this one plant was set at 3,500 tanks a year.

The situation in the aircraft industry was similar. In the summer of 1941, General Motors began pro-

duction of Allison engines in its new factory at Indianapolis. New assembly plants of unprecedented size sprang up from coast to coast and from the State of Washington to the State of Texas. Arsenals for the production of ammunition and other ordnance material were constructed and some were already in production by early fall. By December 7, 1941, American industry was well on its way toward becoming the "Arsenal of Democracy." 1941 was a year of preparation and the main expenditures and allocations were for the construction of production facilities.

It is a characteristic of the industrial process that a considerable amount of time must elapse between the original planning of the enterprise and the actual emergence of the finished product. For some products—particularly airplanes—this lag in time is greater than for others. The "Airacobra" was designed in 1937-38 and test-flown in 1940. It was in production a year later, but not until the spring of 1942 did it begin to see action. Time lag is an important element which helps to explain some of the diffi-

culties encountered in the war production effort.

Thus the year 1941 saw the preliminary phase of tooling up for war production. In 1942 came the final phase of preparation and the beginning of actual production for use.

Subcontracting

When the President declared that a state of war existed between the United States and the Axis powers, one of the paramount problems which we faced was how to get the most production in the shortest time. To set up new plants and equip them with new machine tools would take time, and we were deplorably short of time.

The problem of procuring the many parts necessary to produce modern weapons of war within the smallest period of time was solved to a large extent by extensive use of subcontracting. This method has been called the key to conversion of American industry to all-out war production. Donald Nelson early declared that it might provide the additional impetus necessary to turn the tide. Subcontracting has developed to such a point that it has become one of the most important features of the production effort. Some examples of its use may be of interest.

The Sperry Corporation reports widespread subcontracting in lieu of providing for additional manufacturing space. Expenditures of \$40,000,000 for expansion would have been required had the company done all the work itself. Over 1,000 firms are engaged in supplying semi-processed and completed parts to its

subsidiary companies. The rate of operation of another company would have required the investment of over \$400,000,000, had subcontracting not been used.

Comparatively small corporations in many instances have been able by this means to fulfill contracts much too large for their own manufacturing capacity. An example is Lights, Incorporated, in California, which manufactures lighting equipment for airplanes and airports. At the present time it is handling a sales volume of \$1,500,000 a month with only 200 workers and about \$15,000 worth of machinery. The greater part of this volume is sublet to other firms. To handle this business would require between 10,000 and 20,000 employees and an investment of between \$5,000,000 and \$10,000,000 in unobtainable machinery.

The amazing records of certain Pacific coast shipyards, in which ships have been produced ready for delivery in 14 days or launched in 10 days after the keel was laid, have been made possible by an elaborate utilization of the services and facilities of subcontractors in every part of the country. Within these shipyards the main functions are the assembly of hulls and the installation of machinery and other component parts drawn from outside sources of supply. The steady flow of engines and equipment from other producers has made it possible for the shipyards to focus their efforts solely on final fabrication and assembly.

An eastern tank manufacturer uses 211 principal subcontractors, and these in turn use 1,056 sub-

subcontractors. Even an automobile maintenance garage joins the program by producing a small rod to prop open the door of a pistol port-hole in the tank.

How large a part does subcontracting play in the war effort at the present time? Although no figures are available as to the over-all percentage, the figures from individual companies are sufficient to prove its importance. Over half of the output of the Link Belt Company of Chicago is farmed out. Subcontracts for radios had grown to over \$300,000,000 by June, 1942. The Pullman-Standard Car Manufacturing Company has boosted production considerably beyond the limit of its own productive capacity. By July, 1942, 3,800 ordnance subcontracts had been placed with more than 725 companies in 151 cities in 20 states. A producer of marine engines employs more than 250 subcontractors and suppliers scattered throughout 180 communities in 25 states. Nearly 60 per cent of the work required on these engines is supplied in this manner. Warner and Swasey, manufacturers of machine tools, have adopted this method on many parts formerly machined and fabricated within their own factory.

On December 1, 1942, Brigadier General Thomas S. Hammond, chief of the Chicago Ordnance District, in an appeal to prime contractors to guard the interests of subcontractors in the district, said: "The 18,000 subcontracts that you have brought into war production are an integral part of that reserve capacity which will be required to win this war."

Another aspect of the picture is worthy of considerable attention. That is the problem of reconciling the need for quick production, by using single bids on large quantities of goods, with the utilization of the productive capacities of thousands of small concerns throughout the country. The threat of freezing out the small manufacturer, of temporary unemployment in dislocated industries, and of numerous idle plants at a time when other plants are being rushed to completion raises serious economic and social questions. The preservation of civilian morale, as well as economic stability, is involved in this important issue.

Pooling for Larger Contracts

A second method of making the facilities of small firms available for war contracts has been the formation of production pools. In this way larger contracts can be handled by the combined resources of a number of firms than could be handled by an individual company. Such pools may take the form of a corporation which acts as the prime contractor and allocates the work to members, or they may consist simply of agreements among a number of companies to cooperate with one another. Pools may consist of companies of nearly equal size and type of business or they may include both small and large firms of many varying types of manufacturing. One pool in Cleveland consists largely of home workshops. Others are composed of small machine shops and garages, each of which contains only a small number of

machine tools; when combined into such a pool, however, they present an impressive array of productive capacity.

In Orange and Maplewood, New Jersey, 22 small manufacturers combined to bid on government contracts. One firm serves as the prime contractor for the group, and each member receives contracts to be carried out under the prime contract. Small communities near De Land, Florida, noting that their workers and machinists were being drawn to neighboring industrial centers, reversed the trend with a small production pool which enabled them to put their machine tools to work and bring back prosperity to the district. Here, also, one plant serves as the prime contractor.

A slightly different pattern was introduced last spring by the formation of the Central New Jersey Pool by the Sloane-Blabon Corporation, third largest linoleum manufacturer in the country. Its chief contributions to the pool were capital, management, shop and railroad facilities, and the "know-how" of production. This is the so-called "Mother Hen" type, wherein a large company acts as prime contractor and near-by machine shops and manufacturers serve as subcontractors. In such cases the prime contractor often extends its engineering research to aid the smaller firms.

An instance in which firms of similar size pooled their facilities in order to handle larger contracts is that of four structural steel fabricating companies in the Chicago area. Representatives of all four companies decide on contracts.

These, however, are signed by one of the companies, acting for the other three. Contracts are rotated among the four to keep the engineering, management, and clerical forces busy.

Many industrial districts have employed industrial engineers to aid them in assembling data on their own plants and in getting war contracts. In the summer of 1940, Peoria, Illinois, made a survey of the facilities of 54 companies. A catalogue of their equipment was made up in great detail and presented to the Contract Distribution Division and other procurement branches of the government. Production plans were sent to the Peoria district and were inspected by two engineers, who submitted them to companies which had the necessary production facilities.

In some instances groups of firms have combined to form a corporation, which would then bid on war contracts. Such an organization has more responsibility and a higher credit standing than the firms would have individually. Thirteen wood-working firms in the Grand Rapids area organized the Grand Rapids Industries, Inc. The corporation serves as prime contractor for the group. Another similar organization is that of the New England Small Arms Corporation. It is composed of twelve metal-working companies from southern Connecticut to Maine. Directors of the corporation are selected from officials of the constituent companies.

The mobilization of the small machine shops and manufacturers of the country for war work is one of

the important problems of conversion. Its importance may be seen more clearly when it is realized that in the spring of 1942 small manufacturers and machine shops owned about 75 per cent of the country's machine-tool capacity. Extensive formation of production pools and widespread subcontracting have done much to speed war production.

There are other important aspects of the utilization of small firms. Established homes in small communities, the preservation of village industries, and the minimization of population movements are important considerations in the distribution of war contracts. The threat of "priorities unemployment" is very real in many industries and in many communities. Contracts at prices above the lowest bid received may well be distributed to districts where such a course will alleviate pinched economic conditions.

Management in New Enterprises

The present armament program has tended to prove the general adaptability of the principles of industrial management. For years the principles of pre-fabrication and assembly-line techniques have been known to industry in general. Many fabricating industries had adopted them to some extent. Others, on the plea of the peculiar characteristics of their own business either rejected these new methods or remained ignorant of their possibilities.

Industry, like other organisms, tends to become settled and established in its customs and traditions as it approaches maturity and old

age. Certain standards as to time and methods, production rates, methods of manufacture, and characteristics of design are accepted by the industry because of time-honored usage. In general, nothing short of a major cataclysm can change such fixed ideas. Industry was rejuvenated and revitalized to a large extent by the pressure for production in World War I. The same thing is happening to a greater extent in this war.

No greater proof of the effectiveness of the principles of management could be given than the many instances in which these principles have been applied to entirely new fields with undreamed-of results from a production standpoint. An Illinois automobile and general finance company has changed to ordnance manufacture. A cork-manufacturing company has turned to the production of shell and cartridge cases. Furniture companies have begun production of glider parts and other wood-fabricated parts for training and cargo planes.

Perhaps the greatest change in the entire program has been the conversion of the automobile industry to the manufacture of planes. Since airplane manufacture was formerly on a small-lot basis, the airplane industry was thought to be the least adaptable of all the war industries to mass-production methods. Close tolerances both in machining and in fabrication made extremely careful attention to accuracy an absolute necessity. The extensive use of jigs and fixtures helped to solve the fabrication problem.

The fact that the most spectacular records in shipbuilding have been made by a firm which less than two years ago had never built a single ship is strong evidence of the universal adaptability of the principles of management. Many of the superintendents who now operate Henry Kaiser's shipyards have never seen any shipbuilding operations other than those going on under their supervision. Reciprocating marine engines are being produced in quantity by a former West Coast distributor of machine tools. Although four to six months were required to build these engines in Great Britain, he set about to build them in three and a half days. He is now delivering the engines at the rate of one per day.

In many instances companies were able to transfer their assembly-line techniques to the production of articles which presented problems of manufacture similar to those with which they were familiar. Examples of this type of change-over are: Food Machinery Corporation turned to production of amphibian tanks; Nash, Buick, Studebaker, and other automobile manufacturers are making airplane engines; Briggs Body Works turns out 100-inch and 12-inch milling machines for tank production; and Hudson Motor Company produces Oerliken anti-aircraft guns. Throughout industry there are similar examples of conversion to war manufacture. The result has been the attainment of goals of which even industrial experts were somewhat skeptical last year.

Many companies discovered that

the nature of their business would not permit such a simple conversion to war production. Automobile and general finance companies saw their business dwindle rapidly. One such firm in northern Illinois is now an ordnance manufacturer. W. W. Kimball now makes desks for the Army and Navy and molded wood airplane parts instead of fine pianos. In these ventures time-tried business methods have been successfully applied to new problems.

A large proportion of the current production records now being made have been attained by application of "know-how" rather than as a result of knowledge gained through years of experience in a particular industry. Management has met the acid test of war expansion with flying colors. Despite the fact that in most cases management has been spread thinner and thinner as businesses expanded, it has still been able to fulfill its responsibility to industry. As a result of these experiences, management may be expected in the near future to assume a much more dynamic and energetic role than it has heretofore played in the American scene.

Have Production Schedules Been Met?

The answer of American industry to the challenge of the Axis powers will go down in history as the greatest production achievement to date. The attainment in one year of a rate of airplane production which took Germany ten years to reach; the production of ten years' normal supply of machine tools in less than

a year and a half; in less than eight months a rate of shipbuilding which exceeded the highest point ever reached in the first World War—these are only part of the answer.

The actual rate of development of war production is best illustrated by the rise in the total amount of war expenditures. From a standing start of \$150 millions in June, 1940, war output increased to \$800 millions per month a year later. By October, 1941, it had reached \$1,500 millions per month. War expenditures were \$4,700 millions in August, 1942; they rose to \$5,500 millions in September, an increase of 17 per cent in a single month. War expenditures are expected to exceed \$6 billions a month by early spring of 1943 and to climb to approximately \$8 billions a month by summer or later.

The goals of production which were set for this year for the most part were more than realized. Aircraft production for the year was about 48,000 military planes whereas the goal had been 60,000 planes. Increased emphasis on bomber and cargo planes, more power and better equipment, greater firing power, and heavier armor more than offset the lower production.

The production of tanks has been altered because of the requirements of military strategy. Fast tank destroyers with greater maneuverability harried German tank units in North Africa. Our 105-mm. howitzers, mobilized through use of motor carriages, overwhelmed the enemy's heaviest tanks by means of superior fire-power. In 1942, 56,000 combat vehicles were produced, in-

cluding tanks, self-propelled artillery, and armored cars.

In the production of ammunition and ordnance materials of all kinds, the figures recently revealed by the President indicate that the war production program, taken as a whole, is more than up to schedule. In 1942, we produced 670,000 machine guns and 21,000 anti-tank guns. We produced ten and a quarter billion rounds of small-arms ammunition. This was five times the production in 1941. The production of 181 million rounds of artillery ammunition in 1942 was twelve times that of 1941.

The shipbuilding industry has become one of the brightest spots in the war effort. Plans laid for expansion of ways for final construction of ships were curtailed when yards like those of Kaiser in Oregon began producing ships on a mass-production basis. Early plans for construction of shipyards had been based on production of a ship in 105 days on the ways. When this time was reduced to 75 days by July, 1942, and to 27 days by August, it became apparent that existing ways would be sufficient if the material could be kept moving into them. In May, 1942, ships were being produced at the rate of 4.68 ships per way per year. Technicians estimate the production rate in 1943 at 9.92 ships per way per year.

The goal of 8,000,000 tons of shipping for 1942 was exceeded by 90,000 tons. The production of merchant shipping was five times that of 1941. Success in this effort is reflected not only in the tremendous tonnage produced; the new ships

are of improved design, are larger and faster, and will be better adapted to postwar shipping. Nevertheless, inadequate shipping space still remains one of the most important problems.

These achievements have been made by increasing production facilities, by utilizing existing plants, and by new efficiency in operation and methods both in machining and in fabrication. Lieutenant General Brehon B. Somervell, supply chief, revealed in April, 1942, that new production methods had speeded the loading of shells 7,000 per cent. American plants were then turning out more gun barrels per month than English factories had produced during the entire war.

Not only has production been speeded up by increased efficiency, but the cost to the Government has been reduced materially in many cases. North American Aviation, Inc., reported that it had cut plane costs one third since 1940. An automatic cannon which eighteen months ago cost \$1,200 now costs around \$600. The cost of an essential naval unit has been similarly reduced from \$30,000 to \$20,000. Multiply similar reductions by the total number of such firms producing for war and the result is a staggering sum which is saved for further war production.

During the first year of the War, production was needed at the earliest possible moment. Accordingly, a large volume of war contracts went to a few firms, and in particular to six large companies. It is now apparent that these six firms, and a few others, with their tremendous physical facilities and able

managements, swinging energetically and capably into war production, enabled the United Nations to stem the tide of Axis successes by furnishing materials of war on a large scale. At that time there was considerable adverse criticism of these large orders. The fact that the few prime contractors of the initial war period utilized hundreds and thousands of subcontractors and thus spread the work far and wide was overlooked.

Schedule and Outlook for 1943

Impressive as the record for the year 1942 has been, it will doubtless be surpassed by that for 1943, when the full effort of American industry will be required to meet still greater demands. Even though this country now produces more war material than the Axis powers combined, this amount is not enough. Production must be so great as to overwhelm the enemy completely. Only by this method can the war be brought to a swift and victorious conclusion for the United Nations.

Many of the new production schedules have already been altered by the course of military strategy. Whereas schedules in many lines have been set and diligently striven for in the past year, an entirely different situation may be expected in the coming year. Production will be aimed at specific military needs and will be changed—expanded or curtailed—as military expediency may dictate. Such changes will work a hardship on certain individual firms but they will conserve necessary material for other products more urgently needed. A policy

which does not even pretend to utilize productive facilities 100 per cent has been made possible only by the fact that in most lines productive facilities are already more than sufficient for requirements anticipated at present.

The program for 1943 calls for about twice last year's production of the major items. Airplane production may be increased to almost 100,000 for the year. Although airplane executives admit that the goal will be difficult to attain, they are in accord on the belief that it can and will be done. Greatly expanded facilities for motors and finished planes will be in operation by early spring. The emphasis upon the number of airplanes produced obscures the true record that is being made. While numerical production of aircraft has increased by 100 per cent since Pearl Harbor, actual tonnage has increased by more than 300 per cent.

Shipbuilding and the maintenance of far-flung supply lines will provide one of the important tasks of the new year. Shipping schedules for 1942 were exceeded, and production at the present time is at the rate of 14,400,000 tons per year. The goal for 1943 is 16,000,000 tons, and this can be attained if materials continue to roll into the shipyards. The new ships will be slightly larger and faster than the Liberty ships produced in quantity this past year.

The chief task of production in 1943 will be the problem of keeping this great industrial machine supplied with the necessary raw materials. The operation of several new steel plants, including that of

Kaiser on the West Coast, is expected to help in the attainment of the 97,000,000-ton steel capacity which is our 1943 goal. Failure to attain this goal might lead to readjustments in war schedules. Aluminum production is more than three times that of 1940, but it is still far from adequate for all military needs.

In the main, the problem of keeping supplies rolling in such a way as to keep the war machine at peak efficiency will be accomplished by a strict allocation system. The fact that production will be concentrated on items of immediate need for the Army will further aid the situation in regard to materials. According to present plans, civilian needs will receive little consideration in the coming year. Even the manufacture of metal paper fasteners and pencil sharpeners has been banned.

The change in military planning which was climaxed by the now historic meeting in Casablanca will be reflected in our war production schedules. The spectacular Soviet victories and the progress of the North African campaign have revived hopes that Hitler may be crushed within the current year. The efforts of the Allies to achieve this end as speedily as possible will lead to a more aggressive plan of attack and increased production of specific items to support that plan. Individual industries may be expected to maintain, increase, or decrease their production according to the immediate military need for their products. In the meantime, many concerns are formulating plans for postwar activities.

Sale of War Bonds in Illinois

The Illinois war savings staff of the Treasury Department recently reported that in the year ending December 1, 1942, a total of \$617,475,000 in war bonds and stamps was sold in the State of Illinois. Four out of every five families in the State now hold war bonds. The total purchases since May, 1942, when state quotas were set, represented 92.7 per cent of the Illinois quota. In December, Illinois citizens bought \$51,529,123 of "E" war bonds, exceeding the month's quota by 15 per cent.

Illinois War Workers

An estimated army of 800,000 persons, 22 per cent of whom are women, is working in Illinois factories to produce the war materials needed for Allied victory. From June, 1940, through September, 1942, more than \$5 billions of major war supply contracts have been distributed in the State. This total does not include awards having a value of \$50,000 or less. The workers are producing war engines, ammunition, parachutes, gas masks, clothing, electrical and radio equipment, trucks, navigation instruments, cooking equipment—in short, a wide variety of the tools and supplies required by a well-equipped army.

Illinois Coal Production in 1942

Production of Illinois coal shipping mines in the calendar year 1942 was approximately 5,439,267 tons more than in 1941. While the state department of mines and minerals will make some revisions in the figures as time goes on, it is not expected that the difference from the present summary will be great.

Since national bituminous coal output in 1942 was a reported all-time record at around 580,000,000 tons, Illinois roughly furnished about one-thirteenth of the 66,000,000-ton gain over the preceding year.

Money in Circulation in the United States

No ceiling is in sight for the amount of money in circulation. The latest figure—that for January 20—shows the volume to be \$15,354,000,000, a gain of \$30,000,000 over the previous week. The extent to which the volume of currency has increased in recent years is indicated by the fact that it is now more than \$10,000,000,000 higher than it was at the height of the 1929 prosperity.

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